Commercial banks find . . .

Continued from page 3

Although banks have been beefing up their investment banking departments since the late 1970s, only recently have they become serious competition for their Wall Street counterparts.

The effort has produced modest gains in commercial banks' share of the investment banking market, statistics from Greenwich Associates, Greenwich, Conn., show.

Corporations tapped banks more frequently for a number of services, according to Greenwich's 1985 investment banking survey of 1,477 senior financial executives.

Commercial banks showed percentage gains in market share for such services as commercial paper issuance, advice on divestitures, industrial revenue bond financing, leasing transactions and project financing. Investment banks either showed no gain or percentage declines in these services.

Banks are placing high on the charts by other measures as well:

• Five banks — including No. 1-ranked Citicorp — ranked among the Top 10 firms underwriting competitively bid, tax-exempt issues during the first nine months of 1985, according to Securities Data Co. Inc., New York.

• Bankers Trust has ranked in the Top 10 among private placement deals for the 1½ years.

• FNB Chicago jumped to 11th place from 25th in private placements for the first half of the year, according to IDD Information Services. And Lynn Aylsworth, senior vice president in charge of the investment banking at FNB Chicago, expects his bank to wind up the full year among the Top 10.

In addition, commercial banks' investment banking efforts have begun to contribute handsomely to the overall bottom line.

William Welsh, a banking analyst at Sanford C. Bernstein & Co., New York, expects an average five-year earnings per share growth of 11% for Bankers Trust. Investment banking, with projected earnings growth of 20% to 25% annually, should contribute about 22% of that, he said.

Investment banking earnings and revenues at Citicorp have grown at a 20% clip during the past five years.

At Manufacturers Hanover, investment banking accounted for 20% of the bank's total income in 1984 and 25% for the first six months of this year, said William Schroth, executive vice president-merchant banking.

The success achieved by major money center banks has intensified efforts to build stronger, broader investment banking capabilities.

In September, Chemical Bank, New York, successfully wooed investment bankers from Wall Street firms as part of a major push to expand its corporate financing activities. Some of Texas' largest commercial banks, including Texas Commerce Bank, N.A., and First City Bancorp., recently set up investment banking groups. And Philadelphia National Bank just opened a London merchant banking subsidiary, Philadelphia National Ltd.

Irving Trust Co., New York, and 11 regional banks formed the Bankers Association for Corporate Finance, a trade organization to bolster the banks' corporate financing capabilities through shared ideas and joint transactions.

"Just about everyone is in investment banking these days. They're in it because everyone else is," said Gary Goldstein, co-managing director at The Whitney Group, a New York executive recruiter. "But I don't think every bank that is in the game now will be there five years from now."

Commercial bankers agree. Only a handful, they say, ultimately will be willing to apply the resources needed to develop a strong broad-based or niche-oriented capability.

In addition, many banks simply won't be able to cross the cultural and compensation barriers crucial to maintaining a strong investment banking presence.

Still, there is strong motivation to try.

Banks have gotten into investment banking as spreads on their traditional business — commercial loans — have narrowed, in part because corporations have turned increasingly to the securities markets to raise capital.

Advances in technology and the internationalization of the credit markets have offered prime opportunities for the largest banks to parlay their huge capital bases and international banking capabilities into merchant banking operations overseas, said Charles Ellis, managing partner at Greenwich Associates.

Most major commercial banks have focused on building investment banking operations on a global scale, where there are fewer investment bank competing.

"Aside from First Boston, Salomon Brothers and Goldman, Sachs & Co., there really aren't any investment banking firms positioned to offer services globally," said David Lovejoy, executive vice president in charge of Los Angeles-based Security Pacific National Bank's merchant banking group. Commercial banks have been able to compete there head-on because they are not prohibited from underwriting foreign securities.

In the United States, the 50-year old Glass-Steagall Act prevents commercial banks from underwriting all but general obligation municipal issues.

Banks are continuing to chip away at the law. Morgan Guaranty, Citicorp and Bankers Trust, for example, have applications pending with the Federal Reserve Board to let securities subsidiaries underwrite commercial paper, mortgage-related obligations and municipal revenue bonds.

Efforts to scrap the law have been unsuccessful. "No one is going to charge up the Hill with legislation that Congress is going to embrace," Mr. Lovejoy said, although he believes the financial trends internationally will ultimately force Congress to scrap the law.

In the meantime, the largest banks have pushed ahead as if Glass-Steagall didn't exist, building on their global presences as well as lending relationships, trading capabilities and other existing strengths to establish clearly defined investment banking product lines.

The task hasn't been easy because it has involved transforming a historically slow moving, bureaucratic internal culture into one with the flexibility and creativity that drives Wall Street houses, said Stephen Powers, senior vice president-corporate finance at Bankers Trust.

The task required setting up an aggressive, performance-oriented compensation structure to attract and retain top investment banking professionals.

"When we started, we told our people that whatever your old job description was has been torn up. You are now in charge of generating all investment banking business. That was the stick," Mr. Powers said. "The carrot was compensation."

As a result of implementing a bonus system tied directly to profit-

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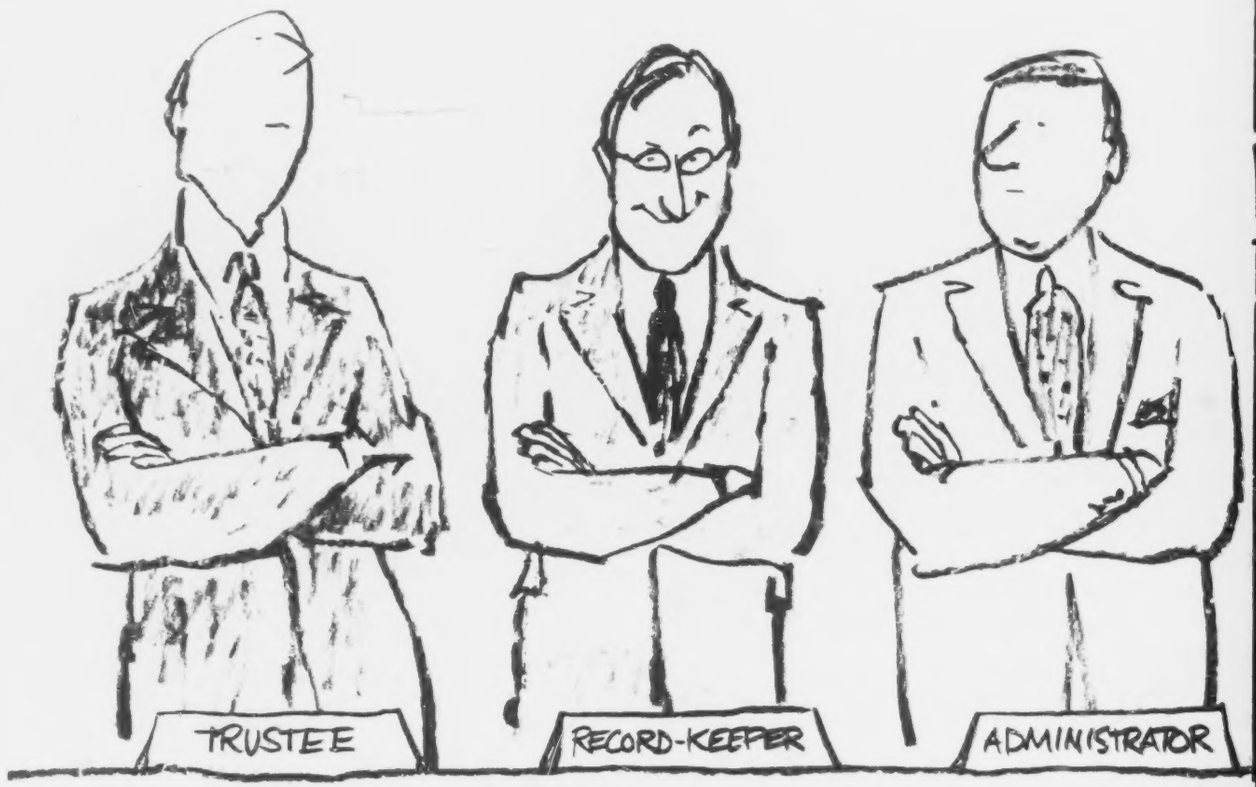

All you need when you need them all...

How use of investment and commercial banks varies by service

Service	Use service %	Use investment bank % 1984	Use investment bank % 1985	1-yr. change %	Use commercial bank % 1984	Use commercial bank % 1985	1-yr. change %
Advice on initiating acquisitions	42	97	96	−1	8	9	1
Commercial paper issue	39	96	93	−3	11	17	6
Advice on divestitures	22	95	92	−3	6	10	4
Financial advice for fee	32	93	93	0	10	11	1
Advice on takeover defense	25	98	97	−1	1	3	2
Industrial revenue bonds	19	48	46	−2	38	41	3
Repurchase of common stock	17	na	95	—	na	0	—
Interest rate swaps	29	53	65	12	70	58	−12
Private placement of debt	20	78	80	2	20	24	4
Leasing	17	60	50	−10	43	45	2
Project financing	18	72	72	0	32	40	8
Public bond offering	20	98	96	−2	6	0	—
Eurobond issue	12	na	81	—	na	28	—
Pollution control financing	10	74	80	6	24	26	2
Debt defeasance	8	78	71	−7	26	25	−1
415 bond offering	11	99	98	−1	na	0	—
Real estate financing	13	72	74	2	30	27	−3

Source: Greenwich Associates, Greenwich Conn.

Commercial . . .

Continued from page 18

ability, he said, "we have not lost anyone from our department in the past three years that we didn't want to lose," despite attempted personnel raids by major Wall Street houses.

Bankers Trust and Morgan Guaranty are credited with the greatest success in overcoming the cultural hurdles. "In some cases, they are paying their people compensation that even the Wall Street firms would find difficult to match," said one executive recruiter.

The commercial banks making inroads in investment banking have integrated their existing strengths, such as a sizable capital base, commercial lending, trading operations and a global presence with their newer investment banking functions, analysts said. They also are stressing innovation within clearly defined frameworks.

For example, relationship managers replaced traditional commercial lending officers at Bankers Trust. They are responsible for identifying the full range of corporate financing needs of their clients.

The bank has restructured to operate like one big merchant bank, Mr. Powers said. Its product line is divided into low-margin/high-volume business (swaps, private placements and Euromarket financing) and high-margin/low-volume business (leasing and venture capital transactions, mergers and acquisitions).

Richard Huber, group executive at Citicorp's investment banking operation, points to the banking institution's global reach — 72,000 people in 2,000 offices in 94 countries — as a key strength.

Clearly, Bankers Trust, Morgan Guaranty and Citicorp will compete on every front with Wall Street houses.

Others are more niche oriented.

Security Pacific, for example, doesn't expect to be a major contender in the mergers and acquisition arena. "It's expensive and has a low ratio of hits to misses. Plus, the investment banks have done a superb job there," said Mr. Lovejoy.

Instead, the bank is parlaying existing strengths into investment banking product lines where officials have determined Security Pacific can compete on a global scale. The bank is developing products that require a high level of technical ability, such as swaps, options, foreign exchange transactions and immunization strategies, he said.

First Chicago, which is building a broad-based investment banking capability, also is carefully defining its markets.

"I don't expect to be active in the big (merger and acquisition) deals," said Mr. Aylsworth. "But there's an awful lot of divestiture and acquisition business we can compete for involving smaller companies or corporate divisions (or cross-border transactions)," he said.

The banks' efforts are paying off: Some corporate officials are more willing to consider them when looking for innovative financing strategies. Thomas Fitzgerald, treasurer at Hershey Foods Corp., Hershey, Pa., said he didn't hesitate to call commercial banks when he was exploring financing alternative to enhance the company's tax situation.

The breakdown in traditional investment banking relationship ties has helped foster a more open attitude.

Ten years ago, Manufacturers Hanover couldn't have approached New York's ITT Corp. because the company did all its public financing with Wall Street firms, said the bank's Mr. Schrotz. "Today, if we build a better mousetrap than our competition, we'll get the business from the company," he said.

Many issuers are more inclined to use banks for overseas financing. "We're not just interested in the rate a bank offers," Mr. Dowdle at Reynolds said. "We want to know bankers have the syndicate and placement capabilities to sell the bonds.

"In the non-U.S. capital markets, some of the commercial banks have developed very strong, innovative capabilities. I'm not sure they are equally as competitive with investment banking firms in the United States."

Citicorp's Mr. Huber conceded issuer attitudes are "something of an impediment" to competing in the United States. "I think its mainly perception . . . but it is there and something banks still have to deal with." ■

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Cash Management

Certification is set for cash managers

By Richard Gillespie

NEWTOWN, Conn. — The National Corporate Cash Management Association passed a major milestone by introducing its own professional qualifications for certifying cash managers.

Cash managers, whether members of the NCCMA or not, now will be able to acquire the title certified cash manager. The first examinations to qualify certified cash managers will be May 31.

"The message is we have this thing set up now and anybody wanting to try it is welcome to sit the exam," said Mario Goveia, chairman of the National Corporate Cash Management Association's certification committee.

The certification committee has been working on the project for the past three years, first under James (Pete) Ruby, assistant treasurer of Holiday Inns in Memphis, Tenn., then under Mr. Goveia, who is manager of domestic banking and treasury administration at Champion Spark Plug Co., Toledo, Ohio.

The form and content of the program has changed several times. An early proposal for a grandfather clause covering long-standing members of the industry was dropped, said Mr. Goveia.

The qualifications for candidacy are final. Cash managers wanting to take the exam will need at least two years in a cash management position, either with a corporation, bank or vendor.

Mr. Goveia said they also will need to have read the study guide "Essentials of Cash Management." The cost of the exam is $150, and $125 for NCCMA members.

The examination will consist primarily of multiple-choice questions the cash management industry's leading academicians worked out with the assistance of Educational Testing Service Inc., Princeton, N.J.

Mr. Goveia said the NCCMA doesn't know how many candidates will show up May 31 because enrollment has not begun. However, 3,000 advance copies of the course guide were ordered.

In anticipation of a high turnout, the committee has worked with Educational Testing Service, which can set up testing facilities across the country to meet demand.

In the meantime, the certification committee is being transformed into a certification counsel of 11 to 13 members, each serving a four-year term. The counsel will monitor the activities of various key committees: testing; publications; recertification monitoring.

The recertification committee is charged with coming up with provisions for renewing certifications. The certified cash manager designation lasts five years, after which time cash managers will have to earn credits to remain qualified or take the examination again.

The current proposal is that certified cash managers will have to earn 60 credits over the next five years, many of which can be earned for general participation in cash management-related events and activities. However, one proposal states at least 20 credits must be in a "treasury-related" area.

Credits can be earned for participation in treasury development projects, regional or national cash management seminars or events and activities such as being a member of cash management assocations or subscribing to accredited cash management publications.

A certified cash manager who holds the designation for 10 years will have earned it for life.

While the certification committee does not see its role as educating the cash management community, Mr. Goveia said, it has established the groundwork.

Education is the role of the NCCMA's education committee, which has produced the guidebook and will conduct three different educational workshops directed toward training cash managers in areas relevant to the examinations.

Emily Penn, a member of the certificiation committee and a senior consultant with Citibank, New York, said the pass rate would be determined by the board, based statistically on the results.

The certified cash manager designation "addresses the needs of relatively inexperienced people," said Mr. Goveia. A higher designation, the certified treasury manager, is on the drawing board.

To qualify for certified treasury manager, applicants will need at least three years experience in cash management-related activity.

This designation will measure not only experience in cash management but also treasury-related areas such as pension fund management, risk management and long-term debt management.

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Payden & Rygel index of short maturities assets*
(for month ending November 30, 1985)

	November 1985	Quarter ending 9/30/85	Year to date	12 months ending 11/30/85	Yield level monthly change*
	Unannualized total returns				
90 Day					
U.S. Treasury Bill	0.6238	1.8443	7.6022	8.5200	-3
Domestic C.D.	0.6297	1.9343	7.8560	8.7656	-10
Euro S.C.D.	0.6504	1.9963	8.0139	8.9619	-5
180 Day					
U.S. Treasury Bill	0.6524	1.9181	8.2681	9.3528	-3
Domestic C.D.	0.5940	1.8822	8.1617	9.2327	-10
Euro S.C.D.	0.6502	1.9324	8.4286	9.4003	0
1 Year					
U.S. Treasury Note	0.7117	1.7717	9.3399	10.7631	-7
2 Year					
U.S. Treasury Note	1.1316	1.8861	11.9312	13.8456	-24

*Figures are unannualized total returns. Year-to-date and 12 month figures linked monthly. 90 and 180 Day Treasury Bill yield level changes on discount basis.
*Basis points.

Source: Payden & Rygel, Los Angeles, California 90017

Potential loss put at $400,000

Poor investments hurt MTA

By Richard J. Gillespie

NEW YORK — The Metropolitan Transit Authority suffered a potential loss of about $400,000 as the result of poor short-term investment practices, New York State Comptroller Edward Regan said.

The MTA's affiliates and subsidiaries include the New York City Transit Authority, operator of the subway system; the Long Island Railroad; the Metro North Commuter Railroad; the Triborough Bridge and Tunnel Authority; and the Metropolitan Suburban Bus Authority.

The short-term investment practices of state governmental organizations have been in the news regularly since the New York State Dormitory Authority lost millions in the collapse of government securities dealer Lombard-Wall Inc. in 1983.

More recently, a variety of New York state school districts lost money doing repurchase agreements with Lion Capital Group.

Unlike other agencies, the comptroller's office did not find that the MTA failed to take delivery of collateral, which was the abusive practice leading to losses at other agencies in the past.

Furthermore, the MTA limited its repurchase agreement activities to transactions conducted opposite the primary dealers.

However, the MTA did fail to mark its collateral to market, an audit found, and failed to execute written agreements with its counter-parties for detailing the rights and obligations of brokers and the MTA, the comptroller's audit shows.

The potential loss of $400,000 did not stem from any failures of the MTA's brokers. It resulted from the MTA's failure to develop an investment portfolio with varying terms to maturity, the audit said.

"The comptroller found that the MTA did not use cash flow analyses, but rather continuously invested the majority of its funds in one-day repurchase agreements, or the three days of weekends," Mr. Regan said in a news release.

"This may be a good practice when interest rates are continuously rising, but will result in lost interest income when interest rates are falling," said Mr. Regan.

According to the report, the MTA was rolling over an average of $535 million daily in repurchase agreements. The only funds invested for longer than three days were bond issue proceeds, and 50% of these proceeds were invested in repurchase agreements on a daily or weekend basis, he found.

The audit said no attempt was made to spread out other funds in longer-term, higher-yield maturities in accordance with the MTA's cash needs.

On Dec. 31, about $850 million, or 76%, of the MTA's $1.1 billion investment portfolio was invested in one- to three-day repurchase agreements.

Photo by Don Forschmidt

An MTA system train travels through New York City.

Specifically, the account set up to handle payments for the New York subway's new rolling stock had 67%, or $82 million, invested in one-day repurchase agreements for almost all of 1984, even though longer-term investments with higher yields were "ap-

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Search is on to aid cash flow

By Fred Williams

NEW ORLEANS — Cash managers should strike out into other corporate areas like invoicing, purchasing and even the mailroom to root out bugs and glitches that may be holding up company cash flows, according to three cash management representatives.

Jack Wilson, manager of cash control with SCM Corp., New York; Debra Beichler, manager cash and banking relations for the J.M. Smucker Co., Orrville, Ohio; and Peter Lemke, vice president of Society National Bank, Cleveland, advised their colleagues to get involved in basic cash management procedures and to avoid becoming too distracted by other cash management issues, such as the use of high technology.

They gave their advice at the National Corporate Cash Management Association conference in New Orleans in mid-November.

Among the basic cash management procedures they discussed were:

- The advantages of paying banks by fees, rather than through balances.
- The savings to be made by negotiating better payment terms.
- The ways in which to expedite the flow of billing and payments through the system.

Mr. Wilson said treasurers should consider the real advantages to be gained from paying banks in fees rather than through compensating balances.

Besides the real dollar savings, there are other benefits to fee-directed compensation, according to Mr. Wilson.

"Fees reduce the likelihood of overcompensating banks because (with fees) there are no excess balances and so this eliminates radical swings in bank balances," he said.

The fee-based form of bank compensation "raises the visibility of your banking costs within the organization and helps you bring these costs under control even more," he added.

Mr. Wilson noted a cash manager who had a $1 million balance requirement could experience annual net saving of $15,360 by converting from compensating balances to fees, assuming the typical case of a 12% reserve requirement, 7.8% investment rate and a 7.2% earnings allowance.

With balance compensation, the company would have a $120,000 reserve requirement; with an earnings credit rate of 7.2%, the company effectively receives a total credit of only $72,000 on its $1 million, he said.

With fee compensation, the company could invest both the $1 million and the $120,000 at 7.8% and receive $87,360 interest income. The difference between the two figures results in a net savings of $15,360, simply from switching to a fee-based payment form, he pointed out.

He also said cash managers should experience no great barriers to making such a switch, either from the company or from the banks.

"It costs nothing to implement, and our banks have accepted it readily," he said.

Ms. Beichler said J.M. Smucker conducted a payment terms analysis about two years ago that provided the purchasing department with some useful information on the negotiation of better payment terms with vendors.

She elaborated on a variety of payment terms available to purchasers and showed the savings that might result from each.

In particular, she compared a month-end cash payment with no discount option to a variety of discounted payment terms, including one in which the purchaser received a 2% discount for paying early, which she said could result in a substantial saving.

Assuming an invoice amount of $15,000 and an investment rate of 8.5%, the total savings to a company from exercising various payment options, according to the payment terms analysis, ranged from $5,562 with a 1% discount for immediate payment and full payment within 30 days (called 1%-10, net 30) to more than $10,000 with the 2%-two pay method, she said.

"You should show the analysis to your purchasing department to use in negotiating better payment terms," she said. "You may not get

Continued on page 40